

This record is a partial extract of the original cable. The full text of the original cable is not available.

C O N F I D E N T I A L HARARE 000326

SIPDIS

STATE FOR AF/S
USDOC FOR ROBERT TELCHIN
TREASURY FOR OREN WYCHE-SHAW
PASS USTR FLORIZELLE LISER
STATE PASS USAID FOR MARJORIE COPSON
ALL AFRICAN DIPLOMATIC POSTS

E.O. 12958: DECL: 12/13/2014
TAGS: [EFIN](#) [ETRD](#) [PGOV](#) [ECON](#) [EINV](#) [ZI](#)
SUBJECT: EXCHANGE RATE HAMPERS COTTON EXPORTS

Classified By: Classified by Ambassador Christopher Dell
under Section 1.4 e/g

[11.](#) (C) Summary: Cargill Managing Director John Battershell told Econoff on February 23 that ginnerers of cotton - the country's top foreign exchange earner in 2004 - have given the GOZ an ultimatum: either the GOZ heavily subsidizes the crop or it permits a more realistic exchange rate than the present Z\$ 6,000:US\$. With the 2005 harvest already underway, Cargill has been refusing cotton shipments from Zimbabwean farmers pending a resolution of the crisis. End Summary.

Government would subsidize two-thirds of cotton harvest

[12.](#) (C) Battershell said his firm's problems in Zimbabwe are "exchange rate, exchange rate and exchange rate." At the Z\$ 6,000:US\$ official rate, Battershell said Cargill and Cottco, the two large ginnerers, can pay farmers no more than Z\$ 1,047/lb. Beyond that, they lose money and will not accept shipments of raw cotton from farmers. For their part, farmers need at least Z\$ 3,000 to cover inputs such as seed and fertilizer.

[13.](#) (C) According to Battershell, ginner and farmer groups have been negotiating with the Reserve Bank (RBZ) over a solution, but with no success to date. The Cargill MD said ginnerers would accept either a subsidy or an exchange rate closer to the parallel market rate of Z\$ 12,000:US\$. However, Battershell said he doubted the RBZ would pay a trillion dollar subsidy (about US\$ 83 million in parallel terms), covering two-thirds of the price paid to growers. He said cotton ginnerers have lobbied for a special sectoral exchange rate such as the one for gold exporters. However, the RBZ has told ginnerers it does not want to establish new exchange rate for each segment of the economy.

[14.](#) (C) Battershell contended that the overvalued zimdollar has thrown his sector completely out of whack. To illustrate, he cited wages of farm laborers. Before the RBZ established its currency auctions in January 2004, the lowest-skilled laborer on cotton plantations earned less than US\$1/day. Now Battershell says cotton farmers pay the equivalent of US\$9/day to the same workers, after wages are converted at the Z\$6,000/US\$ rate. The Cargill MD claims the present wage makes Zimbabwean cotton production uncompetitive.

Comment

[15.](#) (C) Many of Zimbabwe's 250,000 cotton farmers will shift to other crops if they do not turn a profit this year. This would be an unfortunate twist for this economy, since cotton production surpassed tobacco last year as the country's top foreign exchange earner. In fact, cotton output is still close to pre-land reform levels in 2000 (down from 357,000 to 333,000 tons) whereas tobacco output has fallen sharply (down from 237 to 65 million kgs).

DELL